

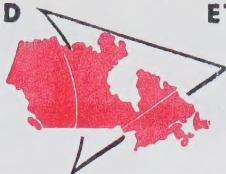
AR13

NESBITT, THOMSON

AND COMPANY, LIMITED ET COMPAGNIE, LIMITÉE

HEAD OFFICE

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Montreal, Quebec.



SIÈGE SOCIAL

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RESEARCH DEPARTMENT

PEMBINA PIPE LINE LIMITED

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PEMBINA PIPE LINE LTD.

Summary

The oil and gas industries in Alberta, where Pembina's operations are centered, appear to offer better than average opportunities for growth over the next few years. From 1967 to 1970 production of pro-rated crude oil in the Province could increase as much as 45% if Canadian oil gains access to the Chicago market, a development which is now expected to materialize. During the same period natural gas production in Alberta will increase approximately 27% based on present contract commitments.)

Pembina is in a good position to participate in this growth. It has acquired substantial landholdings in Alberta in recent years, including promising acreage on the Keg River reef trend. A rising proportion of the Company's annual expenditures is being diverted to exploration and development and to further acquisitions of already developed oil and gas properties.

However, it is also important for Pembina to maintain throughput in its pipeline system at satisfactory levels because this part of its operations provides most of the cash flow needed to expand oil and gas exploration and production. Pipeline throughput is expected to decline somewhat in 1968, assuming that no recurrence of the Middle East crisis arises to give Alberta's production the same stimulus as it did in 1967. In addition, rising output from the Rainbow area will likely cut into the allowables in many existing fields next year. However, the large increases in Alberta's crude production projected for 1969 and 1970 should permit the fields served by Pembina to restore their output close to the levels which have been maintained in 1966 and 1967.

The pipeline operation should, therefore, continue to provide Pembina with a stable and substantial income for many years. Capital expenditures on the system are relatively small since the line is operating at less than 80% of capacity and does not need to be expanded. Thus, a large portion of the cash flow, now running at a rate well in excess of \$5,000,000 annually, can be re-invested in production and exploration.

Reported net profit for the fiscal year ending November 30, 1967 will likely not differ much from the 82 cents per share earned in 1966. Cash flow, however, should rise to about \$3.25 per share from \$3.00 last year.

At \$20 the stock is currently selling at 6.2 times estimated 1967 cash flow per share. Since this multiple is relatively low, future appreciation could be based on both rising cash flow and a higher multiple.

Over the longer term it appears that there is little investment risk in Pembina common and good appreciation potential due to the continuous plough-back of a substantial cash generation. For the near term, the stock has

speculative appeal based on possible discoveries on the extensive land interests in Western Canada which have been acquired in recent years.

CAPITALIZATION, AS AT NOVEMBER 30, 1966.

<u>First Mortgage Bonds</u>		<u>Issued</u>	<u>Outstanding</u>
4 3/4%	Series "A", due December 1, 1971	\$4,000,000	\$1,759,000
4 1/2%	Series "B", due October 1, 1973	3,125,000	1,314,000
6%	Series "C", due December 1, 1974	2,400,000	1,264,000
<u>Sinking Fund Debentures</u>			
5%	Series "A", due December 1, 1972	2,000,000	1,036,500
5%	Series "B", due October 1, 1974 (1)	1,400,000	917,000
6%	Series "C", due December 1, 1975 (1)	<u>720,000</u>	<u>67,500</u>
TOTAL		<u>\$13,645,000</u>	\$ 6,358,000
<u>Less:</u> Current sinking fund payments and securities purchased to meet other than current maturities (2)			<u>451,500</u>
Outstanding long term funded debt			\$ 5,906,500
<u>Add:</u> Production loans			<u>2,869,100</u>
TOTAL long term debt			\$ <u>8,775,600</u>
<u>Shareholders' Equity</u>			
5%	Preferred shares, \$50 par value	\$2,000,000	\$ 1,225,000
Common stock (1,665,032 shares) and Surplus			<u>15,571,818</u>
TOTAL shareholders' equity			<u>\$16,796,818</u>
TOTAL CAPITALIZATION			<u><u>\$25,572,418</u></u>

(1) Earlier conversion privileges have expired.

(2) After deducting \$772,000 principal amount of securities purchased in advance of requirements.

During the first half of the current fiscal year \$1,091,000 was applied toward sinking fund requirements and production loan payments.

OUTLOOK FOR OIL AND GAS PRODUCTION IN ALBERTA

Oil - We estimate that production of crude oil in Alberta will show the following approximate growth pattern up to 1970:-

	<u>Production of pro-rated Crude Oil in Alberta</u> (1)	<u>Increase over previous year</u>
	B/D	B/D
1966	528,000	-
1967 (Est.)	596,000	68,000
1968 (Forecast)	608,000	12,000
1969 "	728,000	120,000
1970 "	872,000	144,000

These figures include only crude oil subject to pro-rationing such as applies to the fields served by Pembina. They exclude tar sands output as well as production of heavy crude and natural gas liquids.

The forecasts assume that Canadian oil gains access to the Chicago market and that deliveries to that area will commence in 1969 and rise to a volume of 100,000 b/d in 1970. Exports to existing markets in Districts I-IV are expected to rise substantially in the 1969-1970 period. For domestic demand an annual growth rate of 5% was assumed.

On the basis of these assumptions we believe that Alberta's production of pro-rated crude oil in 1970 could show an increase of 276,000 b/d, or 45% over 1967 levels.

Gas - Alberta's production of natural gas is estimated at approximately 1,250 BCF for 1967. By 1970 we are looking for the following additional requirements in the main markets for gas from Alberta:

	<u>BCF</u>
Growth in Trans-Canada Pipe Lines' domestic & export markets	208
Increase in exports to California and Montana	75
Growth in Alberta's own requirements	<u>50</u>
Total additional demand	<u>333</u>

- (1) See Canadian Petroleum Industry study prepared by Nesbitt, Thomson's Research Department.

These estimates indicate a 26.6% rise in Alberta's natural gas production over the next three years.

The growth in exports from the Province is based largely on present contract commitments. The projected growth in the Province's own requirements are based on estimates prepared by the Alberta Oil and Gas Conservation Board in 1966.

The extent to which Pembina may participate in the expected growth for oil and gas production in Alberta is discussed in the following.

PIPELINE OPERATION

The operation of the pipeline system is limited to the gathering and transportation of oil from the Pembina and nearby fields. Deliveries are made mainly to the Interprovincial and Trans-Mountain pipelines and to refineries in the Edmonton area. In the 1960's throughput has ranged between a high of 121,500 b/d and a low of 113,580 b/d. During this period Alberta's crude production rose over 50% but Pembina's throughput remained stable as the additional supplies came from fields not served by the company's system.

A similar pattern is expected over the next three years when Alberta's production of pro-rated crude, according to our projections, may rise by as much as 276,000 b/d or 45% over the 1967 level. A major portion of the additional production will likely be carried by the Rainbow pipeline. Furthermore, many fields which are not served by either the Pembina or the Rainbow line, will likely be allocated higher production allowables under Alberta's new pro-rationing system which goes into full effect in mid-1969.

During 1967 throughput in the Rainbow pipeline increased to a level of over 50,000 b/d. However, demand for Alberta crude grew even more rapidly, partly due the effects of the Middle East crisis. Thus, Pembina was able to fully maintain throughput in its system.

In 1968, the projected growth in Alberta's production is much smaller, partly because the Middle East situation will not create a similar extraordinary demand as it did this year. At the same time output in the Rainbow area is expected to rise sharply with the capacity of the Rainbow pipeline being increased to 130,000 b/d by mid-1968. In addition, the Tar Sands will add another 45,000 b/d production in Alberta of which 30,000 b/d will compete in markets belonging to conventional crude. These factors appear bound to cut into allowables for the Pembina field.

For 1969 and 1970 the assumed impact of the new Chicago market and the growth in existing export markets in Districts I-IV should be strong enough to permit rising production in the fields served by Pembina. In these two years Pembina's throughput should therefore increase again to around the present level, or moderately higher.

In short, looking ahead three years, we expect that earnings from Pembina's pipeline system may decrease somewhat in 1968 due to lower throughput but that the lost ground should be recovered again in 1969 and 1970. Thus, over the next three years the total cash flow from the pipeline operation should be similar to that generated during the last three years.

OIL AND GAS PRODUCTION

The company entered the field of oil and gas production in 1963, following changes in the Income Tax Act which permitted pipeline companies to write off, for tax purposes, certain production and exploratory costs against their pre-tax income from pipeline operations. The tax changes created an excellent opportunity to diversify and build up new sources of income to compensate for the lack of growth in the pipeline operation. Furthermore, the deferrals of income tax payments for an indefinite period assured a substantial increase in the annual cash flow.

Purchases of Producing Properties

As its first step in the diversification move Pembina concentrated on purchasing interests in already producing properties rather than embarking on a large scale exploration program. While the return on such commitments cannot compare with the possible gains on successful exploratory ventures, the approach had other, very tangible advantages. The return could be calculated with a fairly high degree of certainty and, in Pembina's circumstances, was enhanced due to the deferrals of tax payments arising from depletion write-offs. In addition, relatively large amounts could be invested quickly and the risks of capital losses at an early stage of the diversification program were avoided.

The income statements bear out that Pembina's approach has been both sound and efficient from a financial standpoint. Within a year, cash flow rose nearly 60% from less than \$3.0 million in 1963 to over \$4.7 million in 1964, an increase equal to \$1.10 per share.

Deferrals of income taxes and provisions for deferrals of income tax credits, totalled \$4.4 million during the three years 1964 - 1966.

Land Acquisitions

In addition to the land interests acquired with purchases of producing properties, Pembina has also built up extensive interests in non-producing acreage. While a detailed breakdown of the acreage is not available, interests in about 490,000 acres were acquired during the last 2½ years, including over 180,000 net acres in Alberta and B.C. We estimate that the total landholdings now exceed 1,000,000 net acres, although a fairly large portion of this consists of Arctic permits and lands located in the Northwest Territories.

Results to Date

Pembina has been active in the area of oil and gas production since 1963. During this period, and to the end of the fiscal year November 30, 1966, we estimate that approximately \$11.3 million was invested in purchases of producing properties, land acquisitions, etc. These activities resulted in the following expansion:

<u>Years to</u> <u>Nov. 30</u>	<u>Net Acreage</u> <u>Holdings</u>	<u>Net Wells</u>		<u>Production</u>			
				<u>Annual</u>		<u>Daily Average</u>	
		<u>Oil</u>	<u>Gas</u>	<u>Oil</u>	<u>Gas</u>	<u>Oil</u>	<u>Gas</u>
		<u>Oil</u>	<u>Gas</u>	<u>Barrels</u>	<u>BCF</u>	<u>B/D</u>	<u>MCF</u>
1964	530,831	10	8	14,000	1.49	38	4,082
1965	819,957	17	39	122,100	3.77	335	10,329
1966	869,065	23	46	201,300	4.21	552	11,530
1967 (est.)	1,025,000	26	46	275,000	5.84	750	16,000

1) As at May 31, 1967.

The company's annual reports provide a breakdown of oil and gas production figures by fields. On basis of published oil well-head prices at the end of 1966, and approximate contract prices for gas production, we estimate that oil and gas revenues in fiscal 1966 amounted to approximately \$965,000 or 12.5% of overall revenues.

In the first half of fiscal 1967 oil and gas production rose 28% and 33%, respectively. Projecting these increases for the full year we estimate that production revenues may reach about \$1,250,000 for 1967, or approximately 15% of overall revenues.

Our estimates of investment in, and revenues from, oil and gas production, appear to indicate a gross return of roughly 10% annually. The effective return to Pembina, however, is in reality higher due to the related tax deferrals. In addition, a portion of the amounts invested to date consists of interests in lands which are not yet productive.

Exploratory Prospects

The acreage interests having the most promising potential for new discoveries are those situated on the general Keg River reef trend in Alberta and B.C., and particularly in the Rainbow-Zama area. These interests are shown by number on the map, page 8.

The circled numbers on the map refer to the following acreage interests:

<u>Area</u>	<u>Gross Acres</u>	<u>Pembina's Interest</u>	<u>Major partner</u>
1. Bistcho Lake	8,320	5%	Western Decalta
2. Petitot River	320	100%	Pembina
3. Steen River	320	100%	Pembina
4. Deneb (North Zama)	7,360	18 $\frac{3}{4}$ %	C.I.G.O.
5. Zama Lake	320	12 $\frac{1}{2}$ %	Home Oil
6. Zama River	320	40%	Ranger Oil
7. Hay Lake	6,056	33 1/3%	C.I.G.O.
8. Beaverskin, B.C.	13,467	15%	Western Decalta
9. Buffalo	<u>12,800</u>	40%	Banff Oil
	<u>49,283</u>		

The map also shows the route of the Rainbow pipeline through the Rainbow fields and the Hay Lake area north to Zama.

The holdings having the most immediate interest for their drilling prospects during the 1967/1968 winter season are those in the Hay Lake area. Pembina's acreage here lies near Pacific Petroleum's Sousa discovery, made early in 1967, which found more than 180 feet of pay zone. Pembina's partners in the Hay Lake area are Canadian Industrial Gas & Oil (operator) and Tenneco Oil & Minerals, each holding a one-third interest. The acreage will be subject to active drilling this winter.

As shown on the map other holdings in Alberta are also located near recent discoveries such as those in the Zama area (numbers 4, 5 and 6). However, it is not known whether, or to what extent, exploratory drilling will be undertaken on these lands during the 1967/68 winter season.

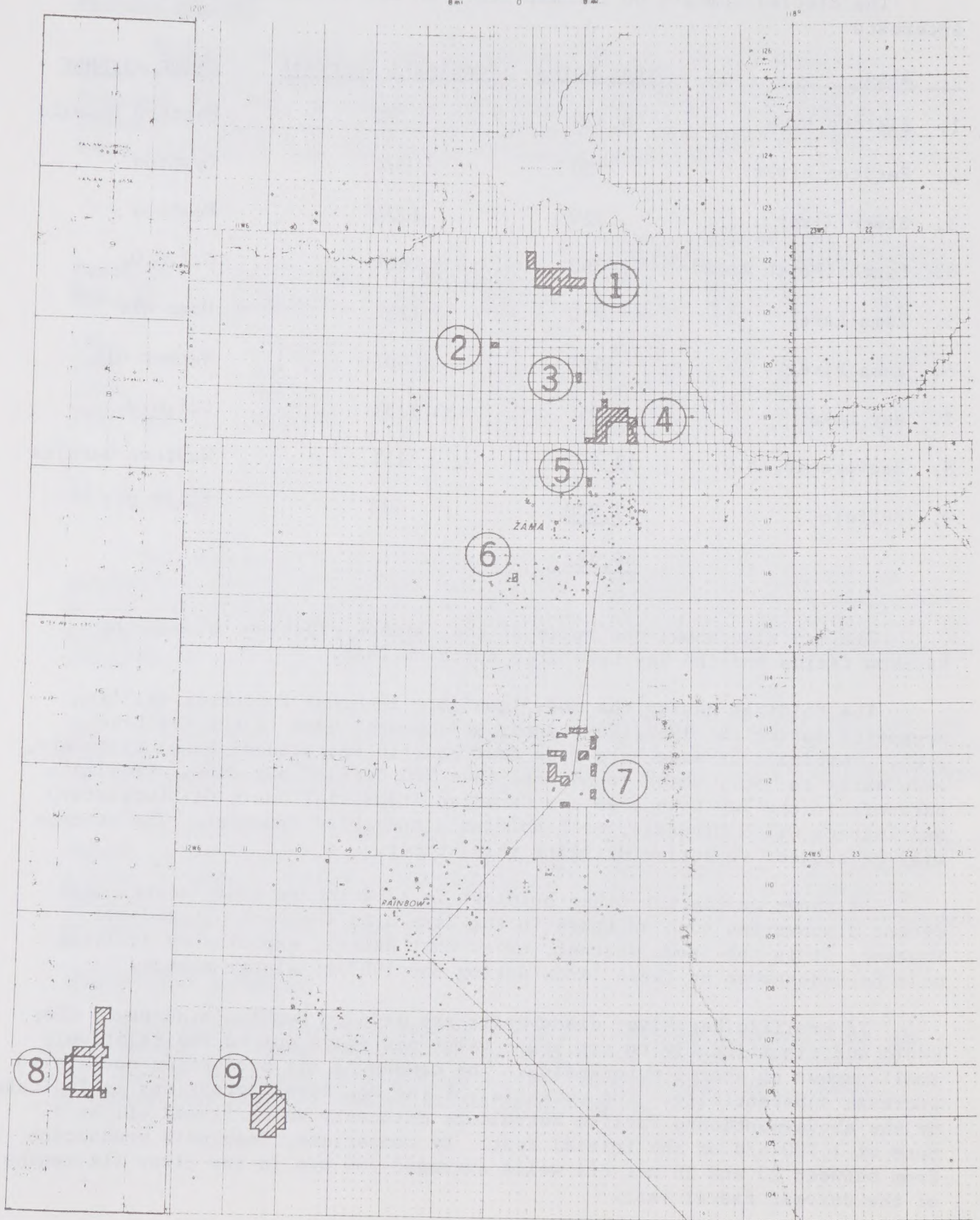
If prolific Keg River discoveries are made on Pembina's acreage, they could add significantly to net asset value per share due to the relatively small number of shares outstanding. The company's oil production could also increase substantially. The potential of the Keg River formations is indicated by the above-mentioned Pacific Petroleum's discovery which flowed oil at a rate of 1,700 b/d on the initial test. By comparison, Pembina's production from between 23 and 26 net oil wells averaged 700 b/d in the first six months of the current fiscal year.

RAINBOW-ZAMA AREA

8

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- OPERATING
- OIL • AND OIL
- GAS • AND GAS
- SERVICE WELL (S.W.D. W.W.E.C.)
- SERVICE WELL (AND OIL)
- SUSPENDED
- DRY & ABANDONED
- OIL PIPE LINE ———

NESBITT, THOMSON
AND COMPANY, LTD.
RESEARCH DEPT

MONTREAL

QUEBEC



PEMBINA PIPE LINE LTD
LAND HOLDINGS

As OF OCTOBER 12 1967

In Saskatchewan Pembina holds net interests in 55,864 acres which are in an area of Winnipegosis Reef exploration.

Financial

Pembina's net profits have remained in the 80 - 90 cents per share range since 1960. Cash flow, however, has increased substantially since the company entered into oil and gas production, rising from \$1.85 per share in 1963 to \$3.00 per share in 1966. For the fiscal year ending November 30, 1967 cash flow is estimated at \$3.25 per share while net profit will likely not differ much from the 82 cents per share earned last year.

The large difference between reported net profits and cash flow arise from the company's conservative accounting methods. The annual write-offs for depreciation, amortization and depletion are substantial. Furthermore, with respect to income taxes, the company normalizes its earnings making full provisions for deferred taxes. In addition, significant deductions are made for deferrals of income tax credits related to oil and gas interests.

The relative importance of the provisions for non-cash outlays is indicated in the following summary of sources and applications of funds for the five years ended November 30, 1966. The figures also illustrate the rapid capital formation, or equity build-up, which results from the company's policy of ploughing-back all cash earnings and not paying dividends on the common stock.

Summary of Sources and Applications of Funds for the Five Fiscal Years ended November 30, 1966.

Sources:

Net profits after preferred dividends	\$ 6,795,997
Depreciation, amortization and depletion	8,353,824
Deferred income taxes	3,053,501
Deferrals of Income Tax Credits	1,589,222
Other items (Net)	<u>1,613</u>
Total internal cash generation	<u>\$19,794,157</u>

Applications:

Capital expenditures and investments (Net)	\$16,175,928
Net debt reduction	3,129,900
Additions to working capital	<u>488,329</u>
	<u>\$19,794,157</u>

The cumulative cash generation of \$19.8 million during this five-year period was equal to nearly \$12.00 per share, all of which was retained in the business.

Cash flow is now running at an estimated annual rate of \$5.4 million. If this rate is maintained, the cumulative cash generation over the next five years will total \$27.0 million or \$16.25 per share, even without allowing for any growth in cash flow.

Conclusion

At the current price of \$20 Pembina common appears reasonably priced at 6.2 times estimated 1967 cash flow of \$3.25 per share. In the long run there should be comparatively little risk in the stock as the continuous re-investment of all cash generation favours growth and appreciation.

Over the nearer term the stock has speculative appeal based on the promising possibilities for new discoveries as a result of exploratory drilling on company acreage during the 1967/68 winter season.

Research Department
CB/my
November 14, 1967.

The information contained herein is based on sources which we believe reliable but is not guaranteed by us and may be incomplete. Any opinion expressed herein is based solely upon our analysis and interpretation of such information and is not to be construed as an offer or the solicitation of an offer to buy or sell the security mentioned herein. This firm and/or its individual officers and/or its directors and/or its representatives and/or members of their families may have a position in the securities mentioned and may make purchases and/or sales of these securities from time to time in the open market or otherwise.

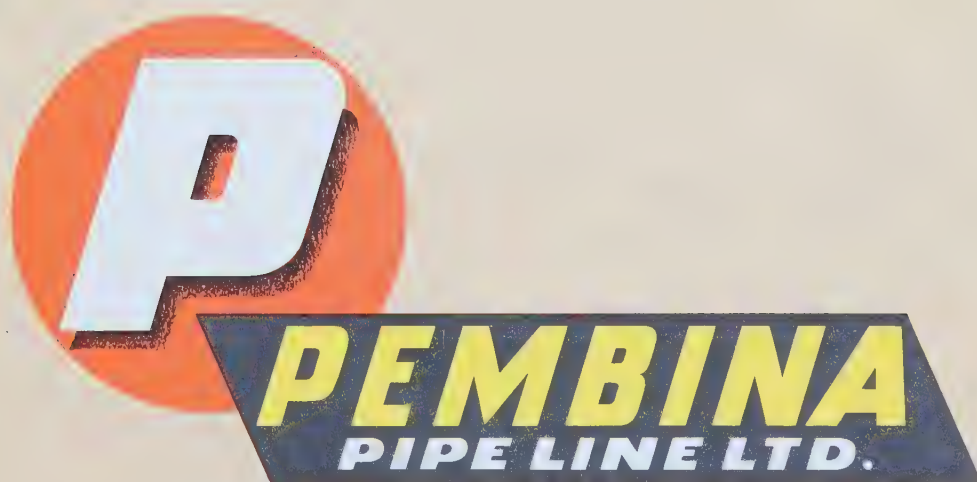
Nesbitt, Thomson and Company, Limited currently makes a market in securities of this company.

An officer and director of Nesbitt, Thomson and Company, Limited is a director of the issuer of these securities.

STATISTICAL HIGHLIGHTS

Years ended November 30	1962	1963	1964	1965	1966	1967 (Est.)
<u>Pipe line:</u>						
Average deliveries - barrels per day	113,580	116,740	120,850	118,270	114,430	115,000
<u>Oil and Gas:</u>						
Crude oil production - net barrels	-	-	14,000	122,100	201,300	275,000
Gas sales - billion cubic feet	-	-	1.49	3.77	4.21	5.84
Gross Revenues:	\$ 6,397,433	\$ 6,289,811	7,072,589	7,455,316	7,478,304	
<u>Cash Flow:</u>						
Net profit after preferred dividends	1,275,795	1,290,500	1,467,985	1,399,763	1,361,954	
Depreciation, depletion and amortization	1,402,355	1,520,524	1,622,012	1,930,778	1,839,139	
Deferred income taxes	92,409	164,801	946,197	914,171	935,923	
Provisions to defer income taxes	-	-	500,717	56,722	463,180	
Exploration and non-productive drilling	-	-	-	5,000	290,441	
Total Cash Flow	\$ 2,770,559	2,975,825	4,515,931	4,775,033	4,890,637	5,411,000
Cash flow as % of gross revenues	43.3%	47.3%	66.1%	64.0%	65.3%	
Number of common shares Outstanding	1,608,932	1,608,932	1,609,372	1,623,177	1,665,032	
Net Earnings per share	0.79	0.80	0.91	0.86	0.82	0.85
Cash flow per share	1.72	1.85	2.91	2.94	3.00	3.25
Price range - High	10 $\frac{1}{4}$	8 $\frac{1}{4}$	11 $\frac{1}{4}$	14 $\frac{3}{8}$	11 $\frac{7}{8}$	
- Low	6 $\frac{3}{8}$	6 $\frac{7}{8}$	7 $\frac{3}{8}$	10	8 $\frac{1}{8}$	
Price/cash flow - High	6.0	4.5	3.9	4.9	4.0	
- Low	3.7	3.7	2.5	3.4	2.7	

thirteenth
annual
report
1967



ANNUAL REPORT 1967



Pembina
Pipe Line Ltd.

HIGHLIGHTS

	1967	1966
Gross operating revenue	\$8,109,288	\$7,478,304
Net earnings	1,477,576	1,427,827
per common share	0.85	0.82
Crude Oil Transmission:		
Average daily pipe line deliveries, barrels per day	117,119	114,430
Oil and Gas Production:		
Oil production—net barrels	300,000	201,300
Gas production—billion cubic feet	5.11	4.21
Net acreage at year end	1,073,432	892,979

REPORT TO THE SHAREHOLDERS

The Directors are pleased to submit the 13th Annual Report on the results of the Company's operations for the year ended November 30, 1967.

Net earnings for the year amounted to \$1,478,000 or 85¢ per common share after allowing for dividends on preferred shares, compared with \$1,428,000 or 82¢ per share for the previous year.

Operating revenue for the year ended November 30, 1967 was \$8,109,000, an 8% increase of \$631,000 over the revenue for the previous year. Increased deliveries through the pipe line system accounted for approximately \$200,000 of this increase and the balance represents increased revenue from oil and gas production.

Pipe line throughputs increased during the year by 2,690 barrels per day, an increase of 2% over the 1966 throughputs of 114,430 barrels per day. This increase developed in the second half of the year as a result of the higher demand for Western Canadian crude occasioned by the Middle East conflict. Capital expenditures on the pipe line system were not significant in the year.

Crude oil and natural gas production for the year averaged 819 barrels per day and 13.93 mmcf per day respectively, increases of 48% and 21% over 1966. These increases were principally a result of the acquisition of oil and gas producing interests in late 1966 and the acquisition of a 50% interest in 17 Sturgeon South D-3 oil wells during 1967.

Your Company continued its active participation in acquiring interests in the Rainbow-Zama Lake area and during 1967 was successful with others in acquiring acreage in the Zama and North Zama areas in Alberta. A new area of activity developed during the year with successful bids on lands in Northeast British Columbia where your Company acquired acreage interests in the Inga area. In addition, acreage interests were acquired in Southern Saskatchewan, Northern British Columbia and in the McKenzie delta area of the Northwest Territories.

The recently announced United States approval of Lakehead Pipeline Company's application for a border crossing to allow construction of a crude oil loop line via Chicago is of major importance to the Canadian oil industry. This new pipe line when completed will enable the transportation of Western Canadian crude oil from the Interprovincial Pipe Line system into the Chicago area as well as providing additional capacity to serve the markets in the Detroit-Toledo area and Eastern Canada. The pros-

pects of an entry into the new market area should, for the foreseeable future, assist the continued growth in Western Canadian crude oil production; however, to maintain this growth it is essential that the present levels of exploration and development of reserves be maintained. The Report of the Royal Commission on Taxation posed a real threat in this respect and during the year your Company was actively engaged, with other members of the Independent Petroleum Association of Canada, in setting forth the detrimental effects that the implementation of the recommendations of the Commission would have on the oil and gas industry. Your Company also made a submission to the Minister of Finance outlining the serious impact the Commission's proposals would have on our shareholders. Although the Minister of Finance has indicated that future tax changes will be more in the nature of reforms to the existing tax structure rather than adoption of a radically different approach, we believe that all levels of Government should be continually aware of the economic consequences that would evolve from the withdrawal or diminution of present incentives to the petroleum industry.

Present indications are that net earnings in 1968 will be comparatively unchanged. Pipe line revenues are expected to be marginally lower than in 1967 but increased revenue from oil and gas production will offset the reduction.

The Directors acknowledge with sincere appreciation the enthusiastic contribution all employees have made to the continuing progress of the Company.

President

A handwritten signature in dark ink, appearing to read "M. Smith", written in a cursive style.

By Order of the Board.

Calgary, Alberta
February 9, 1968

REVIEW OF OPERATIONS

PIPE LINE OPERATIONS

Field receipts of crude oil during 1967 totalled 42,748,000 barrels, an increase of 981,000 barrels over that received during 1966. Receipts by field were as follows:

	1967	1966
Pembina	39,121,000	38,625,000
Willesden Green* .	2,593,000	2,252,000
Bigoray	219,000	215,000
Cyn Pem	442,000	281,000
Edson	373,000	394,000
Total—all fields .	42,748,000	41,767,000

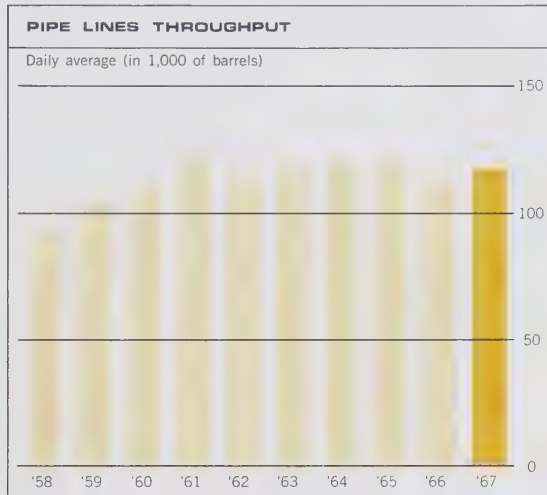
*Includes Rocky Mountain House previously reported as a separate field.

The disruption of world crude oil supplies occasioned by the Middle East conflict created a high demand for Western Canadian crude during the summer of 1967. As a result of this development the industry has had to review its complete capability from wellhead to the market. Although presently there exists a large unused crude oil production capacity in Alberta, the physical facilities in the industry generally are not capable of meeting inordinate increases in demand on a temporary basis. Pembina's facilities, however, are of sufficient capacity to transport crude oil from fields served at the maximum reservoir capabilities and on occasion are required to make deliveries to connected carriers at the maximum trunk line rate of 150,000 barrels per day. Had there been sufficient capacity in con-

nected carrier systems during peak demand periods, Pembina's capacity would have been utilized to a greater degree and throughputs for the year would have increased accordingly.

On May 1, 1968 the Oil and Gas Conservation Board will institute the next to last phase of its changeover to the new proportioning system. This phase involves redistribution within the pool of allowables from incapable wells rather than the present method of province-wide redistribution. Assessment of the precise effect of this change on Pembina Pipe Line's throughputs is difficult; nonetheless, it is anticipated that throughputs during 1968, if affected, will be only nominally reduced from the level in 1967.





Your Company has joined with others in the formation of The Solids Pipeline Research and Development Association (SPRDA) and its sister organization, The Solids Pipeline Economic Study Association (SPESA), to study the technical and economic feasibility of transmitting solid materials by capsule pipe line. SPRDA and SPESA have retained the Research Council of Alberta to carry out tests on a 4" diameter, 3,500 foot pilot loop located in Edmonton. In addition, SPRDA and SPESA have retained some nine other consulting organizations to report on various aspects of capsule pipe lining. Completion of the first phase of this research program is expected by the middle of 1968.

EXPLORATION

Drilling

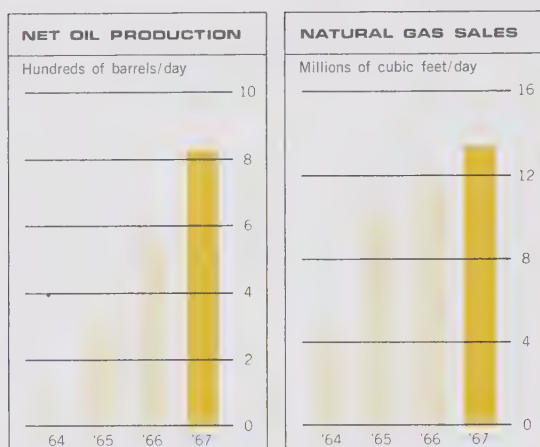
Your Company participated in the drilling of a capped gas well (50%) and two dry holes (10% and 25%) during 1967.

The capped gas well is in the West Peejay area of British Columbia and the dry holes were drilled at Bistcho Lake, Alberta, and Hummingbird, Saskatchewan. Our exploratory drilling activity will increase in 1968 due to our obligations on acreage spreads in the Keg River reef trend; viz. at Beaverskin, British Columbia, and the Deneb and Hay Lakes areas near Zama Lake, Alberta. Drilling in the Hay Lakes area is currently under way as indicated on the detailed maps on Page 14 of this report.

Areas of Interest

Major acreage acquisitions were made in the Zama Lake reef trend in Alberta, at Inga and Petitot in British Columbia and in the McKenzie delta of the Northwest Territories. We plan to expand our holdings in these active areas and from the detailed map of the Inga area on Page





14 it will be noted that we acquired interest in acreage in this area in early 1968. During 1967 your Company's net acreage holdings increased by 180,000 acres to bring the total net acreage holdings to 1,073,430 as at November 30, 1967. Pembina's net holdings in the Arctic Islands have been farmed out to Panarctic Oils Ltd. for exploration and comprise 661,000 acres of this total.

DEVELOPMENT

The Company's participation in development drilling and secondary recovery projects combined with the acquisition of producing properties increased oil production and natural gas sales for the year 1967. Net crude oil production increased from 684 barrels per day in December, 1966 to 1,024 barrels per day in November, 1967. The yearly average was 819 barrels per day. Natural gas sales fluctuated seasonally during the year, averaging 13.39 mmcf per day. The November, 1967

natural gas sales were 14.13 mmcf per day.

Pembina shared in the drilling of ten development or stepout prospects, resulting in nine successes and one abandonment. The abandonment was an oil test at Grand Forks in Southern Alberta. The successes were two oilwells in the Mitsue field, two oilwells in the South Inga area of British Columbia, one West Provost Viking Gas Unit well and four gas wells in the Seven Persons area of the Medicine Hat field. The location of these Medicine Hat gas wells is indicated on the detailed maps on Page 14 of this report. At the year's end, Pembina's net well count had increased to 48.69 gas wells and 29.94 oil wells.



STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED NOVEMBER 30, 1967

(with comparative figures for 1966)

	<u>1967</u>	<u>1966</u>
Source of funds:		
Funds derived from current operations before charges for depreciation, depletion, amortization, abandonments and provision for deferred income taxes and deferred income tax credits	\$5,373,327	\$4,670,745
	<u> </u>	<u> </u>
Application of funds:		
Net additions to carrier property, land, leases, wells and other equipment	\$3,452,230	\$3,539,819
Sinking fund payments (1966 reduced by \$380,500 on conversion of 6% convertible debentures into common shares)	1,349,000	616,000
Production loan payments	460,827	399,800
Dividends on preferred shares	61,316	65,873
Other items	(9,837)	(31,525)
	<u>\$5,313,536</u>	<u>\$4,589,967</u>
	<u> </u>	<u> </u>
Increase in working capital	\$ 59,791	\$ 80,778
	<u> </u>	<u> </u>
Working capital (Deficit)	\$ (283,077)	\$ (342,868)
	<u> </u>	<u> </u>

See accompanying notes to financial statements

BALANCE SHEET (with comparative figures for 1966)

ASSETS

	1967	1966
FIXED ASSETS, at cost:		
Investment in carrier property, land, leases, wells and other equipment	\$47,281,164	\$44,635,473
Less accumulated depreciation, depletion and amortization	14,837,526	13,111,170
	32,443,638	31,524,303
Operating oil supply	485,572	485,572
	<u>32,929,210</u>	<u>32,009,875</u>

INVESTMENTS, at cost:

Investments in shares of wholly owned subsidiaries	22,500	22,600
Advances to wholly owned subsidiaries	3,490	13,227
Investment in bonds and shares of other companies	243,619	243,619
	<u>269,609</u>	<u>279,446</u>

CURRENT ASSETS:

Cash	242,584	15,573
Accounts receivable:		
Trade accounts	691,293	663,209
Others	112,754	207,523
Funds held by trustee	2,206	2,206
Materials and supplies, at cost	26,461	37,728
Deposits and prepaid expenses	56,710	49,011
Short term deposit receipts, at cost plus accrued interest	3,845,919	2,188,756
	<u>4,977,927</u>	<u>3,164,006</u>

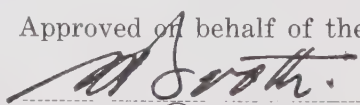
DEFERRED CHARGES:


Unamortized discount on funded debt	47,800	66,877
Organization expenses	3,656	3,656
	<u>51,456</u>	<u>70,533</u>

GOODWILL AND OTHER INTANGIBLES, less

amounts written off	544,631	582,710
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Approved on behalf of the Board:

 _____, Director

 _____, Director

\$38,772,833

\$36,106,570

See accompanying notes

NOVEMBER 30, 1967

LIABILITIES

	<u>1967</u>	<u>1966</u>
LONG TERM DEBT:		
Funded debt less current maturities (Note 1) . .	\$ 4,682,500	\$ 5,906,500
Production loans less current portion (Note 2) . .	2,408,273	2,869,100
	<u>7,090,773</u>	<u>8,775,600</u>
CURRENT LIABILITIES:		
Demand bank loans	4,155,600	1,500,000
Accounts payable and accrued charges	521,600	1,358,177
Interest accrued on funded debt	14,054	17,497
Sinking fund payments due within one year, less bonds, debentures and preferred shares held by the company	180,950	232,800
Production loan payments due within one year . .	388,800	398,400
	<u>5,261,004</u>	<u>3,506,874</u>
DEFERRED TAXES ON INCOME: (Note 3) . . .	<u>6,284,770</u>	<u>5,393,770</u>
DEFERRED INCOME TAX CREDITS, on petroleum and natural gas interests (Note 3) . .	<u>2,048,208</u>	<u>1,633,508</u>
SHAREHOLDERS' EQUITY:		
Capital stock:		
5% cumulative redeemable first preferred shares of a par value of \$50.00 each (Note 4)	1,100,000	1,225,000
Common shares:		
Authorized: 4,000,000 shares of a par value of \$1.25 each;		
Issued: 1,665,032 shares	2,081,290	2,081,290
	3,181,290	3,306,290
Capital redemption reserve fund	775,000	650,000
Paid-in surplus	510,710	510,710
Retained earnings (Note 5)	13,621,078	12,329,818
	<u>18,088,078</u>	<u>16,796,818</u>
	<u>\$38,772,833</u>	<u>\$36,106,570</u>

STATEMENT OF EARNINGS

YEAR ENDED NOVEMBER 30, 1967
(with comparative figures for 1966)

	<u>1967</u>	<u>1966</u>
Income:		
Revenue from operations	\$8,109,288	\$7,478,304
Income from investments	260,332	101,387
	<u>8,369,620</u>	<u>7,579,691</u>
Expenses:		
Operating, including exploration, non-productive drilling and abandonments	3,059,528	2,354,154
Interest and expense on long term debt . . .	481,920	558,146
Other interest	144,347	30,801
Amortization of goodwill	38,079	37,447
Depreciation and depletion	1,862,470	1,772,213
	<u>5,586,344</u>	<u>4,752,761</u>
Net earnings before the following	2,783,276	2,826,930
Provision for future years' income taxes (Note 3)	891,000	935,923
	<u>1,892,276</u>	<u>1,891,007</u>
Provision to defer income tax credits on petroleum and natural gas interests (Note 3)	414,700	463,180
Net earnings	<u><u>\$1,477,576</u></u>	<u><u>\$1,427,827</u></u>

See accompanying notes to financial statements

STATEMENT OF RETAINED EARNINGS

YEAR ENDED NOVEMBER 30, 1967
(with comparative figures for 1966)

	<u>1967</u>	<u>1966</u>
Balance beginning of the year	\$12,329,818	\$11,166,702
Add net earnings for the year	1,477,576	1,427,827
	<u>13,807,394</u>	<u>12,594,529</u>
Deduct: Dividends paid on 5% cumulative redeemable first preferred shares . . .	61,316	65,873
Transfer to capital redemption reserve fund re redemption of preferred shares .	125,000	125,000
Adjustment of income tax provisions for prior years	<u>—</u>	<u>73,838</u>
	<u>186,316</u>	<u>264,711</u>
Balance end of year	<u><u>\$13,621,078</u></u>	<u><u>\$12,329,818</u></u>

STATEMENT OF PAID-IN SURPLUS

YEAR ENDED NOVEMBER 30, 1967
(with comparative figures for 1966)

Balance beginning of year	\$ 510,710	\$ 182,529
Add excess of par value of 6% convertible debentures converted (\$380,500) over par value of common shares issued (\$52,319) . .	<u>—</u>	<u>328,181</u>
Balance end of year	<u><u>\$ 510,710</u></u>	<u><u>\$ 510,710</u></u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 1967

	<u>1967</u>	<u>1966</u>
1. Funded debt, subject to sinking fund requirements:		
First mortgage bonds:		
4¾% Series "A", due December 1, 1971	\$1,309,000	\$1,759,000
4½% Series "B", due October 1, 1973	1,127,000	1,314,000
6% Series "C", due December 1, 1974	1,122,000	1,264,000
Debentures:		
5% Series "A", due December 1, 1972	856,500	1,036,500
5% Series "B", due October 1, 1974	833,000	917,000
6% Series "C", due December 1, 1975	67,500	67,500
	<u>5,315,000</u>	<u>6,358,000</u>
Deduct:		
Securities required for current sinking fund payments (current liability)	97,000	178,000
Securities acquired for current sinking fund payments	175,000	93,000
Securities acquired to meet other than current sinking fund payments	360,500	180,500
	<u>632,500</u>	<u>451,500</u>
	<u>\$4,682,500</u>	<u>\$5,906,500</u>

Bonds and debentures amounting to \$772,000 were delivered in advance of the sinking fund requirements in 1967 and 1966.

- Production loans consist of demand bank loans in the amount of \$2,797,073 which loans will be repaid at a rate sufficient to retire \$388,800 by November 30, 1968. These loans are secured by certain of the company's interests in petroleum and natural gas properties and an assignment of their interest in the gas purchase contracts applicable to the pledged natural gas interests.
- In accordance with the Income Tax Act the company is permitted, for tax purposes, to claim depreciation in amounts other than those provided in its accounts and also to deduct the cost of petroleum and natural gas interests. Accordingly, tax deferrals and savings have been effected during the year and have been treated in the accounts as a charge against earnings and a credit to deferred taxes on income and a credit to deferred income tax credits on petroleum and natural gas interests. The latter is being amortized over the life of the petroleum and natural gas interests, and represents the savings in excess of taxes expected to be payable in the future when depletion will be claimed on production income.

4. 5% cumulative redeemable first preferred shares of a par value of \$50.00 each:

	<u>1967</u>	<u>1966</u>
Authorized: 60,000 shares		
Issued: 40,000 shares	\$2,000,000	\$2,000,000
Less redeemed: 1967—15,500 shares;		
1966—13,000 shares	<u>775,000</u>	<u>650,000</u>
	1,225,000	1,350,000
Less sinking fund payment due within one year . .	<u>125,000</u>	<u>125,000</u>
	<u>\$1,100,000</u>	<u>\$1,225,000</u>

The company may at its option redeem the whole or any part of the 5% cumulative redeemable first preferred shares on not less than 30 days' notice at par value plus a premium of 2% to December 1, 1968 and thereafter at a reducing premium to December 1, 1972, after which no premium is payable upon redemption.

5. The trust deeds securing the first mortgage bonds and the debentures place certain restrictions upon the payment of dividends on the common shares of the company and upon the redemption or repayment of any capital stock.

Statements in accordance with The Companies Act (Alberta):

1. The company has three subsidiary companies whose accounts have not been consolidated with those of the company because the subsidiaries were all inactive during the year and their assets are not significant. The subsidiary companies had no profits or losses during the year ended November 30, 1967 and the results of all operations of prior years have been reflected in the accounts of the company.
2. The remuneration paid to directors and senior officers of the company for the year ended November 30, 1967 was \$121,890. There was no remuneration paid by the subsidiary companies.

AUDITORS' REPORT

We have examined the balance sheet of Pembina Pipe Line Ltd. as of November 30, 1967 and the statements of earnings, retained earnings, paid-in surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.


In our opinion, these financial statements present fairly the financial position of the company at November 30, 1967 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
January 31, 1968

Pat, Marwick, Mitchell & Co.
Chartered Accountants

LOCATION OF ACREAGE PARTICIPATION

 Acquired in 1967.

 Acquired in prior years.





TEN YEAR REVIEW

	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>	<u>1960</u>	<u>1959</u>	<u>1958</u>
FINANCIAL										
(In thousands of dollars)										
Gross revenue	\$ 8,109	7,478	7,455	7,073	6,290	6,397	6,731	5,974	5,647	4,979
Net earnings	\$ 1,478	1,428	1,472	1,544	1,370	1,359	1,452	1,324	1,191	1,002
Earnings per common share	85¢	82¢	86¢	91¢	80¢	79¢	85¢	77¢	69¢	57¢
Capital expenditures . . .	\$ 3,452	3,540	5,465	4,307	1,389	1,245	1,391	1,652	1,774	724
Investment in fixed assets at year end—at cost . . .	\$47,767	45,121	41,694	36,345	32,223	30,897	29,702	28,361	27,815	26,076
Long term debt less current maturities at year end . .	\$ 7,091	8,776	10,047	9,308	9,574	10,829	11,936	13,087	14,129	15,163
OPERATIONS										
Pipe Line:										
Average deliveries— barrels per day	117,120	114,430	118,270	120,850	116,740	113,580	121,550	110,400	103,400	94,000
Miles of line built in year . .	4	12	39	37	32	51	58	58	85	49
Miles of line system at year end	925	921	909	870	833	814	763	706	650	565
Oil and Gas:										
Crude oil production— net barrels	300,000	201,300	122,100	14,000						
Gas sales—billion cubic feet	5.11	4.21	3.77	1.49						
Wells net at year end:										
Oil	30	23	17	10						
Gas	49	46	39	8	6					

DIRECTORS

H. BOOTH

Calgary, Alberta

E. CONNELLY

Calgary, Alberta

E. W. COSTELLO

Calgary, Alberta

J. P. GALLAGHER

Calgary, Alberta

F. C. MANNIX

Calgary, Alberta

B. L. MONTGOMERY

Calgary, Alberta

A. D. NESBITT

Montreal, Quebec

OFFICERS

E. CONNELLY

Chairman of the Board

H. BOOTH

President

E. W. COSTELLO

Vice-President

J. P. GALLAGHER

Vice-President

J. A. McDONALD

General Manager

A. J. EMSLEY

Treasurer

W. G. O'ROURKE

Secretary

W. G. GRAY

Controller and Assistant Secretary

BANKERS

The Royal Bank of Canada

Calgary, Alberta

TRANSFER AGENTS AND REGISTRARS

The Montreal Trust Company

Calgary, Alberta

SOLICITORS

Chambers, Saucier, Jones, Peacock,

Black, Gain & Stratton

Calgary, Alberta

AUDITORS

Peat, Marwick, Mitchell & Co.

Calgary, Alberta

HEAD OFFICE:

300 - 9th Avenue S.W.

Calgary, Alberta

FIELD OFFICES:

P.O. Box 330

Drayton Valley, Alberta

P.O. Box 579

Redcliff, Alberta



27 October 1967.

file
- 1 -
PEMBINA PIPE LINE
(Progress Report)

Price (9/29/67) : \$18	1966 Earnings Per Share : \$0.82
1967 Price Range : \$18 $\frac{7}{8}$ -9	1967 Est. Earnings Per Share : \$0.88
Dividend : Nil	1966 Cash Flow Per Share : \$2.96
Yield : Nil	1967 Est. Cash Flow Per Share : \$3.20
	Price / Est. 1967 Cash Flow : 5.6 x

CAPITALIZATION
(Nov. 30, 1966)

Funded Debt	\$ 8,775,600
5% 1st Pref. Shares	1,225,000
Common Stock (1,665,032 o/s) and Surplus	15,571,818
	<u>\$25,572,418</u>

Summary & Conclusion

Our recommendation of Pembina Pipe Line is based largely on our belief that the stock market could begin to evaluate its shares more from the point of view of an exploration company, than a pipe line operator. Oil and gas production is beginning to make important contributions to revenues, and it appears that future financial growth will be almost wholly dependent on exploration results. If we are correct in our belief, a major expansion of both cash flow and the cash flow multiplier could develop. Selling at \$18 or at only 5.6 x estimated 1967 cash flow of \$3.15-3.25 per share, we recommend the purchase of Pembina Pipe Line shares as a speculation on exploration results this winter, because success in northwest Alberta could well result in a sudden reappraisal of the company's status.

- 2 -

Production and Exploration

Pembina first entered this important segment of the industry on November 1st, 1963, following an amendment in income tax regulations relating to exploration costs, which permitted pipe line companies to charge these costs against pre-tax earnings. Thus it became possible for Pembina to finance at least part of its property acquisitions with tax dollars .

For the fiscal year ended November 30th, 1966, oil and gas production equalled 201,300 barrels and 4.21 billion cubic feet and accounted for close to 15% of total revenues. During the first six months of the current year, production of oil and gas increased by 28% and 33% respectively, largely as a result of the acquisition of oil producing properties in the Boundary Lake, Willesden Green and Pembina fields, and natural gas properties at Provost, Cessford and Etzikom.

In addition to its accumulation of a production base through the acquisition of proven properties, Pembina also has been acquiring exploratory acreage during the past three years. The company's land position now totals over 1.3 million gross acres, or 1,020,607 net. Of particular interest at the present time is the company's acreage in northwest Alberta, near the discovery areas of Rainbow and Zama Lakes. We have outlined these land holdings in the following table.

<u>Acreage</u>	<u>Interest</u>	<u>Location</u>	<u>Partners</u>
7,360	18 $\frac{3}{4}$ %	North Zama	C. I. G. O. L. , Kewanee, Amax.
12,600	40%	Southwest Rainbow	Banff, Aquitaine
13,467	15%	Beaverskin Creek B. C.	Western Decalta, Ranger, Supertest, Petrol Oil & Gas
8,320	5%	South Bistcho	Homestead, Huber, Supertest
6,560	33 1/3%	Roe Creek	Huber, Husky
6,056	33 1/3%	Hay Lake	C. I. G. O. L. , Tenneco

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In addition to the acreage mentioned above, Pembina has interests in other smaller parcels, and in a further 61,500 acres in more remote areas of northwest Alberta. However, from the point of view of exploration this winter, we believe that the parcels mentioned above are most likely to be evaluated, particularly the North Zama, Southwest Rainbow and Hay Lake holdings. The North Zama reservation, which was acquired in land sales earlier this summer at a price of \$682 per acre, is situated just one mile north of a rumored oil discovery by Canadian Superior and Dome Petroleum. The Southwest Rainbow acreage, which is situated approximately 12 miles to the southwest of the Rainbow south field, was acquired in 1965 at a price of \$60.24 per acre. While we know of no firm plans by Banff to drill here this winter, we do not feel that this possibility should be ignored. In the Hay Lake district, where 6,056 acres was acquired in 1966, there appears to be a strong possibility of active drilling this winter, following a discovery by Pacific Petroleum earlier this year just $\frac{3}{4}$ of a mile south of Pembina's nearest land holdings. Pacific discovered 180 feet of oil pay on that occasion, and the well flowed at a rate of 1,700 b/d on tests. Needless to say, participation in a major Keg River discovery would be highly significant to the company, especially since there are only 1.7 million shares outstanding.

While exploration activity will be focused on northwest Alberta during the next few months, it also should be mentioned that Pembina has acquired an interest in over 110,000 acres in Central Saskatchewan, where we expect greater exploratory activity during the next twelve months. Operators in this area will be evaluating the Winnipegosis horizon, Saskatchewan's equivalent to the Keg River reef in northwest Alberta.

Application of Funds

The company does not break down its application of funds statement to show the individual amounts spent each year on pipeline facilities and production and exploration. It is our contention that the company now is in a position to channel a large percentage of its cash flow into production and exploration, a belief which we feel is supported by the following table. It will not be noted that additions to carrier property have declined substantially since 1962 as a result of reduced development activity in the fields served by the company. We do not anticipate a major near term change in this situation. At the same time, capital expenditures more than tripled in 1964, when Pembina made its first major acquisitions of proven and undeveloped properties.

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	<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>
Additions to carrier property, land, leases, wells and other equipment ('000)	\$3,535	\$5,465	\$4,307	\$1,389	\$1,245
<u>Additions to Carrier System</u>					
Miles of gathering lines installed	12	39.38	36.5	30	51
New batteries connected	10	32	15	24	48
Batteries automated	20	9	10	65	22
<u>Additions to Production and Exploration Properties (Net)</u>					
Gas wells	7	31	1.55	6.25	-
Oil wells	6	7.1	9.9	-	-
Acreage ('000)	76	289	~531~	*	-
Funds used for debt requirements ('000)	\$1,016	\$1,481	\$1,390	\$1,330	\$1,182

* The company does not indicate in which years this acreage was acquired, although it would appear to us that, on the basis of expenditures on carrier property, land, leases and wells etc., most of this acreage was bought in 1964.

Pipeline Operations

The company operates a pipe line and gathering system serving the Pembina, Bigoray, Cyn-Pem, Rocky Mountain House, Edson and Willesden Green fields in Alberta. For the third consecutive year, average deliveries declined in 1966 to 114,430 b/d from 118,270 b/d in 1965 and 120,850 b/d in 1964. The company is being adversely affected by changes in the Alberta allowables system, which are resulting in reduced production from the Pembina field, where the company derives the largest portion of its revenues. Receipts from the Pembina field accounted for over 90% of throughput in 1966.

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Throughput for the first half of 1967 averaged 114,700 b/d, essentially unchanged from the first six months of 1966. Receipts are expected to be maintained at this level for the remainder of the year. However, declines should be anticipated in 1968 and again in 1969 when the full impact of the allowable changes will be felt. At present it is difficult to measure the severity of this decline, since industry discovery rates and demand factors cannot be assessed. However, management has told us that throughput should be maintained at over 100,000 b/d, and accordingly we do not anticipate much more than a 10% decline.

While we do not anticipate any growth from pipeline operations, unless there is a drastic change in demand for Alberta crude, this division is providing a relatively stable source of revenue, with low operating costs, to finance the company's entry into exploration and production.

Financial

For the first six months of 1967, Pembina Pipe Line reported a 20% increase in net earnings to 49 cents per share, compared with 41 cents for the comparable 1966 period. Earnings for the full year are expected to improve somewhat but, because of high exploration costs during the second half, we do not anticipate a repetition of first half's results. Accordingly we are looking for an improvement of about 8% to 85-90 cents per share.

In our calculations of cash flow, we have included deferred taxes, depreciation and exploration costs to arrive at figures which are comparable to adjusted cash flow as reported by most western oil companies.

JLP/pk

